

SACRAMENTO VALLEY WATER MANAGEMENT AGREEMENT STATEMENT OF POLICY PRINCIPLES

December 14, 2001

1.0 Preamble. To avoid prolonged litigation and to promote better management of California's water resources, representatives of those who possess water rights or are water users within the Sacramento River and its tributaries ("Upstream Water Users"), those south of the Sacramento-San Joaquin Delta who possess water rights or are State Water Project ("SWP") or Central Valley Project ("CVP") water users, the Contra Costa Water District and those who divert SWP water from the North Bay Aqueduct (collectively "Export Water Users"), the California Department of Water Resources ("DWR"), and the United States Bureau of Reclamation ("Reclamation") have developed this Statement of Principles ("Principles") for the implementation of the Sacramento Valley Water Management Program ("Program"). This Program envisions implementation of water management actions, representing an historic, far-reaching, water-management effort. The Parties intend that actions to implement the Program will be compatible with the CALFED Bay-Delta Program. These Principles will also serve as the basis for a water rights settlement agreement regarding Phase 8 of the State Water Resources Control Board ("SWRCB") process to implement the 1995 Water Quality Control Plan ("WQCP"). During the term of the Short-Term Settlement Agreement ("Short-Term Settlement Agreement"), the parties intend to develop a long-term work plan and expanded Program that will provide increased benefits for all parties and provide the basis for a long-term settlement agreement. The governing boards or directors of the agencies involved in these negotiations have final authority to approve the contemplated agreements. The undersigned negotiators of these Principles and other participants agree to fully explain and recommend adoption of the Principles to their governing entities.

2.0 Successive Agreements. Ultimately, full implementation of the Program involves four successive agreements.

2.1 Stay Agreement. In the Stay Agreement, executed in April 2001, the parties to that agreement committed to developing a settlement agreement to resolve issues related to implementation of the WQCP in lieu of proceeding with the adversarial Phase 8 process. The SWRCB issued an order staying the Phase 8 process in April 2001 enabling the settlement discussions to commence.

2.2 Short-Term Settlement Agreement. The Short-Term Settlement Agreement will be a master agreement establishing these Principles to guide implementation of short-term water management actions to meet local water supply needs and to make water available to the SWP and CVP, which, for the purpose of this Agreement, will be jointly responsible for meeting the requirements of the WQCP. It is anticipated that the Short-Term Settlement Agreement will be executed on or before March 15, 2002.

2.3 Short-Term Project Implementation Agreements. These agreements will be executed with individual districts to assure implementation of short-term projects on terms and conditions acceptable to both the settlement parties and the individual districts. The Short-Term Settlement Agreement and the individual Short-Term Project Implementation Agreements shall not be effective until it is concluded that sufficient

Short-Term Project Implementation Agreements have been executed to assure effective implementation of the Program.

2.4 Long-Term Agreements. These agreements will include a long-term agreement supplementing or replacing the Short-Term Settlement Agreement and a new set of individual Long-Term Project Implementation Agreements. The Long-Term Project Implementation Agreements will be executed with individual entities to assure implementation of long-term projects on terms and conditions acceptable to both the settlement parties and the individual entities.

3.0 Administration. To assure effective administration, the Program will include the following:

3.1 Management Committee. A Management Committee to provide oversight for the implementation of the agreement. The committee shall include representatives of the Upstream Water Users, Export Water Users, DWR, Reclamation, the California Department of Fish and Game, and the United States Fish and Wildlife Service. The Management Committee may create technical committees as necessary to fulfill its duties.

3.2 Short-Term Work Plan. The Short-Term Work Plan ("STWP"), completed on October 26, 2001, identified integrated water management projects that will enhance the Upstream and Export Water Users' ability to use their existing supplies to meet their existing and future water needs and enhance their water management flexibility. The STWP shall serve as the technical basis for implementation of short-term projects.

3.3 Technical Measurement and Monitoring Committee. A Technical Measurement and Monitoring Committee ("TMMC") of experts representing the parties will be created. The TMMC shall establish an upstream operational base-case to help measure the benefits of project implementation, develop criteria to determine what constitutes "new water," develop and implement monitoring programs for all projects, resolve technical disputes, and recommend changes in implementation as appropriate to the Management Committee.

4.0 System Improvement Projects. To the extent technically and economically feasible, the System Improvement Projects will be implemented consistent with the STWP. These water use efficiency measures will be implemented to provide maximum environmental benefit and to provide operations and maintenance benefits to participating Upstream Water Users. To the extent that the Management Committee, acting upon the recommendation of the TMMC, determines that these projects provide new water to the system, such "new water" will be credited toward the requirements in Sections 8.1 and 8.2.

5.0 Surface and Groundwater Storage Planning Projects. The planning projects identified in the STWP will be completed. These projects are intended, in part, to provide strategic information to Sacramento Valley decision-makers and others to assure that implementation of the Program will protect and enhance the reliability and integrity of the region's water supply.

6.0 Unmet Sacramento Valley Water Demands. The parties recognize that the reasonable water needs in the Sacramento Valley must be met as part of any Agreement that also seeks to manage the region's assets for environmental and statewide benefit.

6.1 Sutter Bypass. For the term of this Settlement Agreement, the parties agree not to

challenge the continued use of return flows by water users in the Sutter Bypass/Butte Slough region. The Sutter Bypass/Butte Slough water users shall pay an amount to be negotiated that will be credited against the non-Upstream Water Users' share of operation and maintenance cost of Block 2 water pursuant to Section 8.5.3. This provision shall be implemented in a manner that creates no legal precedent.

6.2 Tehama-Colusa Canal Authority ("TCCA"). As part of the Settlement Agreement, the TCCA will receive an increased supply not to exceed 25,000 AF annually at water rates based on Reclamation's "ability to pay" criteria. Such supplies shall be made available by assignment of existing Sacramento River Water Rights Settlement Contract CVP water supply to TCCA member agencies. This provision shall be implemented in a manner that creates no legal precedent regarding transfers of base or other project water supplies. As part of a long term settlement agreement benefits to TCCA member agencies may increase over time along with increased benefits to others.

7.0 Protection of SWP and CVP Supplies. In recognition of the need to protect SWP and CVP supplies from inappropriate use by others, it is agreed as follows:

7.1 Illegal Diversions. The parties agree that entities who do not hold adequate water rights should be prevented from illegally diverting water from the system. To reduce such diversions, the parties will cooperate in seeking significantly increased penalties for such illegal diversions and significant increases in resources for enforcement actions by the SWRCB.

7.2 Project Storage Releases. The parties agree that when releases are required from the SWP and CVP reservoirs to maintain Delta water quality, such releases must be protected from illegal diversions. The parties affirm the principle that upstream water rights do not extend to use of SWP and CVP storage releases, except in those circumstances where the upstream diverter has a contract with the SWP or CVP that expressly provides for such use.

8.0 Conjunctive Management Projects. To the extent technically and economically feasible, conjunctive management projects consistent with the STWP will be implemented. These projects will provide an estimated 185,000 AF of water dedicated to the uses specified in Section 8.1 in below normal, dry, and critical years as defined by the 40-30-30 Sacramento River Index in the 1995 WQCP. The TMMC will monitor implementation of the STWP projects. If subsequent estimates indicate the full supply of 185,000 AF will not be achieved, the Upstream Water Users will work cooperatively through the TMMC to develop and make available replacement supplies.

8.1 Block 1 for Local Use. Fifty percent of the water supplies made available from the STWP projects (up to 92,500 acre feet) shall be for local use within the districts making the water available, consistent with Section 9.0. To the extent this water is not needed locally, it shall be made available to the Export Water Users, DWR or Reclamation for purchase under the terms and conditions of these Principles.

8.2 Block 2 for Water Quality Control Plan Water. Fifty percent of the water supplies made available from the STWP projects (up to 92,500 acre feet) shall be made available to the SWP and CVP who may elect to take and use such water to meet the requirements of the WQCP.

8.3 Obligation to Take Block 1 Water. In the event the Export Water Users, DWR or

Reclamation elect to call for Block 2 water, the Export Water Users, DWR or Reclamation shall be required to purchase an equal amount of Block 1 water that the Upstream Water Users determine to be available.

8.4 Water in Above-Normal Years. During above-normal year types, the Export Water Users, DWR or Reclamation have the right to request that the Upstream Water Users make available Block 2 water. The Upstream Water Users shall not be obligated to make such water available if they determine, in their sole discretion, that such actions would have a negative impact on groundwater conditions. The Export Water Users, DWR and Reclamation however, shall have a right of first refusal for any conjunctive management based transfers up to the Export Water User's DWR or Reclamation Request from the Upstream Water Users at the melded Block 1 and Block 2 price described in Sections 8.5.3 and 8.5.4.

8.5 Finances. To pay for conjunctive use projects and the other actions required by the Program, the parties agree to the following:

8.5.1 Capital Costs. Consistent with the responsibilities of the agencies administering the funds, all necessary steps will be taken to secure funds from Proposition 204, Proposition 13, and other appropriate public sources to pay the capital expenses of STWP projects required for implementing the Program. The voters have recognized it is in the public interest to fund actions that improve water quality in the Delta and the reliability of supplies. Proposition 204, approved by the voters in 1996, provided \$25 million for the purpose of assisting in meeting the 1995 WQCP objectives such as through the implementation of a water rights settlement in the Sacramento Valley. Proposition 13 contains funds for implementation of conjunctive management, water use efficiency, and planning projects consistent with the projects envisioned here.

8.5.2 Use of Existing Wells. It is anticipated that existing wells owned by private landowners will be used to provide water for the purposes of the Program. Accordingly, such landowners shall receive reasonable payments for operation and maintenance, rehabilitation (if needed), and capital costs associated with such wells. A process to determine a reasonable value for existing wells, or a portion thereof, utilized in this program will be established.

8.5.3 Operation and Maintenance (O&M) Costs for Block 2 Water. O&M expenses for Block 2 water will be paid 50 percent by Upstream Water Users and 50 percent by Export Water Users, subject to the credits described in Section 6.1. In Shasta Critical years (as defined in Sacramento River Water Rights Settlement Contracts on "drought" years in Feather River Contracts) the 50% O&M payment obligation will be tied to "out-of-pocket" costs. The TMMC will confirm the need to rely upon sources other than STWP sources in Shasta Critical years and also confirm the appropriateness of "out-of-pocket" costs.

8.5.4 Payments for Transfer Water. Export Water Users, DWR or Reclamation will pay for Block 1 water made available pursuant to Section 8.0 according to the following payment schedule:

- \$50/AF during years classified as above-normal;
- \$75/AF during years classified as below-normal;
- \$100/AF during years classified as dry; and
- \$125/AF during years classified as critical.

The payments made for Block 1 water will be reduced to reflect the amount of public funds used in 8.5.1 and 8.5.2, which is estimated to be \$17/acre-foot assuming a 30-year amortization period at six percent. The payments made for Block 1 water will be modified up or down from the base rate noted above based upon actual changes in operation and maintenance costs.

9.0 Term. The term of the Short-Term Settlement Agreement shall be ten years from the effective date, unless earlier replaced by a longer-term agreement. Consistent with the Stay Agreement, the Settlement Agreement may be subject to early termination: (i) if the SWRCB's 1995 WQCP flow objectives are increased or decreased; (ii) if after annual review the Export Water Users, DWR or Reclamation determine the objectives of the Program are not being substantially achieved and can not be revised to do so; or (iii) matters outside the Settlement Agreement or Program materially affect the Upstream Water Users ability to implement this Settlement Agreement or the Program.

10.0 Environmental Compliance. In carrying out any actions arising under or which may result from the Agreement, any applicable environmental review including, compliance with the National Environmental Policy Act and the California Environmental Quality Act will be completed. Costs for such compliance shall be paid, to the extent feasible, from funds identified in Section 8.5.1.

11.0 Non-Participating Entities. The Parties agree that entities who were identified in the Phase 8 hearing process but who are not providing water through STWP projects, or otherwise contributing to the purpose of these Principles who seek to transfer water outside the Sacramento Valley should be required to make water available for Block 2 project level purposes consistent with those Principles. The parties intend that before water is acquired for use outside the Sacramento Valley from non-participating entities, such transactions shall first be made available to participating entities on substantially the same terms and conditions. The provisions of this Section 11.0 shall not apply to Upstream Water Users that have resolved Phase 8 issues through separate settlement agreements approved by the SWRCB.

12.0 Transition to the Long-Term Agreement. As additional projects are implemented beyond the STWP, the benefits of such projects shall be used to meet the joint objectives of all participants as well as other purposes such as environmental benefits, including benefits to fish and wildlife, in the watershed of the Sacramento River, and CALFED programs. As additional projects are implemented a reallocation of Block 2 contributions of participating entities and an increase in the amount of water available for Block 2 and other purposes will take place. It is anticipated in the long-term agreement, additional water will be used for Block 2 purposes up to a negotiated limit.